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SUBJECT: COMMERCIAL LOGISTICS SUPPORT TO U.S. MILITARY IN IRAQ  
GROWING IN TURKEY

1.(SBU) Summary: AMCON Adana PO met on March 11 with representatives from U.S. firm Kellogg, Brown and Root (KBR) and PWC, a Kuwaiti company awarded a U.S. military PRIME VENDOR contract, in Mersin to review their coalition sustainment support operations in southern Turkey along the northern ground line of communication. Both reported progress in building their business platforms within Turkey to expand their regional support to U.S. military clients in northern Iraq and reviewed their current projects with PO. KBR wondered aloud whether 2003 Turkish purchasing guidelines still were relevant for Turkey - see para. 5. End Summary.

KBR says billing problems behind it

2.(SBU) KBR has gradually built a Mersin presence of 6 U.S. expatriate staff (with several more coming) from its initial 2 Adana staff since the pre-war period when it was conceived that they would support a posited transition of the Fourth Mechanized Infantry division to Iraq through a "northern front." They made an appeal to the U.S. government to do "all (the U.S. government) can to open the Habur gate wider to get sustainment (non-fuel) cargo through to Iraq more quickly."

3.(SBU) KBR's office manager, when PO inquired, acknowledged that lagging invoice payment to Turkish vendors has been an issue over the last 2 months, but said that the issue had become an action item for its vice president in Baghdad, who had ordered the establishment of an "aging invoice system" to better track the billing and vendor system in KBR use in the region. According to KBR's Mersin manager, this has resulted in invoices over thirty days old being reduced dramatically in the last month and a "healthy discussion with Turkish vendors on partial payments, where necessary." He said that he had had no major discussions with Turkish vendors about overdue invoices in about a month, whereas such discussions were common in the prior month. He said that many of those earlier discussions had involved sums from several hundred thousand to several million dollars in value. (Note: Several AMCON Adana contacts have reported total sums over four million dollars in the last three months, but generally corroborate improved KBR payment performance recently. End Note.)

Some issues due to Turks adjusting to modern corporate finance, says KBR

4.(SBU) A KBR purchasing director also explained that many Turkish firms new to working with federal acquisition regulations and what he called "real world modern finance" just did not understand when invoices became valid per KBR and "when the real clock starts." He said that KBR tries hard to settle all invoices within thirty days of delivery to an authorized contractor or receiving agent in Iraq, but many Turkish vendors considered the clock to start on invoices when KBR employees in Mersin did pre-shipment visual inspections. He explained such inspections were really just due diligence prior to delivery since the prospect of exchange and return in normal commercial terms were not reality when doing business with those in Iraq. "It has been a learning process, but both sides are getting better now," he said, "and people are raising their quotes to us as they come to see longer delivery and payment terms as part of the vendor process for Iraq."

-And consolidating regional purchasing and shipment in Turkey

5.(SBU) Still, compared to Kuwait where they said KBR experiences brimming ports and little industrial base from which to source industrial goods and solutions, Turkey is proving to be a viable source for many of KBR's internal needs to support its U.S. military logistics capacity (LOGCAP) project. The office in Mersin particularly predicted growth above its USD 12 million monthly purchasing operation in Mersin to upwards of USD 20 million within about three months as it streamlined its operation in Jordan, where they said there was little industrial base and difficulty getting access to escorts for delivery in western Iraq. They said that they were already bringing in U.S.-sourced goods via the Mersin port as well and looked to increase that flow both from redirected shipments originally intended for Agaba and increased overall throughput from the U.S. They also emphasized that they were sourcing Turkish-procured goods from all over Turkey, not particularly

from southern or southeastern Turkey.

Seeking greater sourcing flexibility in Turkey

6.(SBU) KBR managers also referred to a 2003 U.S. military-provided Turkish General Staff (TGS) set of guidelines for approved Turkish vendors from which they could source goods and services, saying that they would prefer fewer limits on their sourcing to increase product range, delivery windows and competition.

PWC building up in Turkey, too

7.(SBU) PWC, a Kuwaiti company awarded a U.S. military PRIME VENDOR contract, and operating in Turkey with partner, IMISK, is building a state of the art automated, modern warehouse in Tarsus to transship MRE and UGR's as well as bottled water and refrigerated fresh fruits and vegetables to U.S. military dining facilities in northern Iraq. They expect delivery of the warehouse in late April or early May 2005. They are awaiting approval to warehouse MRE's and UGR's from the TGS in the new Tarsus warehouse which Defense Logistics Agency (DLA) would deliver to Mersin by sea from U.S. ports. Currently those same goods are delivered less efficiently through Turkey by truck from U.S. warehouses in central and western Europe.

18. (U) Baghdad minimize considered.

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